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Checklist supplement and illustrative financial statements for investment companies : a financial accounting and reporting practice aid, September 2002 edition

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Maryann Kasica

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September 2002 Edition

CHECKLIST SUPPLEMENT AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR INVESTMENT COMPANIES

***A Financial Accounting and
Reporting Practice Aid***

To be used in conjunction with *Checklists and
Illustrative Financial Statements for Corporations*

Prepared By
Maryann Kasica, CPA

Technical Manager,
Accounting and Auditing Publications

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA

Checklist Supplement and Illustrative Financial Statements for Investment Companies has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

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FSP Section 12,000

Checklist Supplement and Illustrative Financial Statements for Investment Companies

.01 The checklist and illustrative financial statements included in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- These checklists include disclosures commonly encountered in investment company financial statements; they do not include all disclosures required by GAAP or by SEC regulation. Further, the illustrative financial statements are intended to provide sample financial statement formats and disclosures for a hypothetical investment company; they are not intended to illustrate all disclosures required by GAAP or by SEC regulation, nor do they illustrate all of the disclosures covered in the checklist.
- The checklist and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

The checklist and illustrative financial statements are to be used in conjunction with the “Checklists and Illustrative Financial Statements for Corporations” (FSP sections 6000–6500). The checklists have been updated to include relevant accounting pronouncements through:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*
- FASB Interpretation (FASBI) No. 44, *Accounting for Certain Transactions Involving Stock Compensation—an Interpretation of APB Opinion No. 25*
- FASB Technical Bulletin (FTB) No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
- FASB Emerging Issues Task Force (EITF) consensuses adopted up to and including the June 2002 EITF meeting
- AICPA Statement of Position (SOP) 02-1, *Performing Agreed-Upon Procedures Engagements That Address Annual Claims Prompt Payment Reports as Required by the New Jersey Administrative Code*
- AICPA Practice Bulletin (PB) No. 15, *Accounting by the Issuer of Surplus Notes*
- AICPA Audit and Accounting Guide *Audits of Investment Companies* (with conforming changes as of May 1, 2002)

The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

- The checklist and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.

.02 Users of the checklist and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline at 1-888-777-7077 (AICPA members only).

Note: This publication was extracted from sections 12,000 through 12,400 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 12,100

Introduction

.01 Investment companies generally are companies that pool shareholders' funds and invest the proceeds for the benefits of shareholders under the supervision of professional investment management. The investments are generally in securities that are intended to meet the investment objectives of the entity. The entity distributes the net income and realized net gains to its shareholders.

.02 The industry is subject to extensive governmental regulation by the Securities and Exchange Commission ("SEC"). The industry is also the subject of special tax treatment. The investment company industry usually is categorized by the type of security or the investment objective.

.03 There are many types of investment companies: management investment companies, unit investment trusts, collective trust funds, investment partnerships, certain separate accounts of life insurance companies, and offshore funds. Management investment companies are further divided into many sub-classifications, the most predominant of which is open-end funds, also called mutual funds. There are also closed-end funds and Small Business Investment Companies (SBICs) among others.

.04 The checklist has been designed primarily for auditors of mutual funds and closed-end investment companies that register with the SEC under the Investment Company Act of 1940. However, the checklist would generally apply to all types of investment companies.

.05 Investment companies covered by the checklist are required to report their investment assets at fair value and have the following attributes (not applicable to real estate investment trusts):

- a. *Investment activity.* The primary business activity involves investing its assets, usually in the securities of other entities not under common management for current income, appreciation, or both.
- b. *Unit ownership.* Ownership in the investment company is represented by units of investments, such as shares of stock or partnership interests to which proportionate shares of net assets can be attributed.
- c. *Pooling-of-funds.* The funds of the owners are pooled to avail owners of professional investment management.
- d. *Reporting entity.* The investment company is the primary reporting entity.

.06 The major accounting and auditing literature and applicable regulations for investment companies are as follows:

- a. AICPA Audit and Accounting Guide *Audits of Investment Companies*.
- b. SOP 89-2, *Reports on Audited Financial Statements of Investment Companies*.
- c. SOP 93-1, *Financial Accounting and Reporting for High-Yield Debt Securities by Investment Companies*.
- d. SOP 93-4, *Foreign Currency Accounting and Financial Statement Presentation for Investment Companies*.
- e. SOP 95-2, *Financial Reporting by Nonpublic Investment Partnerships*, as amended.
- f. SOP 95-3, *Accounting for Certain Distribution Costs of Investment Companies*.

- g. Articles 6 and 12 of Regulation S-X of the Securities and Exchange Commission.
 - h. The Securities Act of 1933.
 - i. Investment Company Act of 1940.
-

FSP Section 12,200

Checklists—General

.01 AICPA disclosure checklists have been designed as practice aids to assist accountants in the preparation of financial statements and to assist auditors in their evaluation of the adequacy of disclosures in the financial statements they audit. Authoritative literature does not require the use of checklists, nor does it prescribe their format or content.

.02 This checklist consists of a number of questions or statements that are accompanied by references to the established sources of GAAP in which the disclosure requirements are found. These sources include Statements of Financial Accounting Standards, FASB Interpretations, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Audit and Accounting Guides, AICPA Statements of Position, and EITF consensuses. Checklists are designed to serve as convenient memory aids but should not be used as a substitute for direct reference to authoritative literature.

.03 To use this checklist, simply check “yes,” “no,” or “not applicable” for each question. If additional information needs to be documented, include separate cross-referenced memoranda.

.04 As you use this checklist, please remember that:

- The exercise of sound professional judgment is of paramount importance in applying the checklist provisions.
 - The checklist may require modification based on the engagement circumstances.
 - The checklist may not be all-inclusive.
 - Users need to modify the checklist for any pronouncements issued subsequent to those mentioned in the checklist.
-

FSP Section 12,300

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid and is to be used in conjunction with the "Checklists and Illustrative Financial Statements for Corporations" (FSP sections 6000–6500).

.02 The form and content of the investment companies' financial statements required in SEC filings are governed by Regulation S-X, Articles 6 and 12 that deal specifically with investment companies (SBIC's are covered in Article 5).

.03 Explanation of references:

AAG-INV =	AICPA Audit and Accounting Guide <i>Audits of Investment Companies</i> (with conforming changes as of May 1, 2002)
Form N-1A =	SEC Form N-1A
Reg. S-X =	SEC Regulation S-X
SOP =	AICPA Statement of Position

.04 Checklist Questionnaire:

This checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the investment company. Place a check mark by the topics or sections considered not applicable; these sections need not be completed.

	<i>Place ✓ by Sections Not Applicable</i>
• General	
A. Financial Statements Presented	_____
B. Reporting Financial Position	_____
• Schedule of Investments	_____
• Statement of Assets and Liabilities	
A. Assets	_____
B. Liabilities	_____
C. Net Assets	_____
• Statement of Operations	
A. Income	_____
B. Expenses	_____
C. Net Investment Income	_____
D. Realized and Unrealized Gain or Loss from Investments and Foreign Currency Transactions	_____
E. Net Realized and Unrealized Gain or Loss from Investments and Foreign Currency	_____
F. Net Increase or Decrease in Net Assets from Operations	_____
• Statement of Changes in Net Assets	_____

- Statement of Cash Flows _____
- Financial Highlights _____
- Other Disclosure Requirements _____
- Interim Financial Statements _____
- Funds With Multiple Classes of Shares or Master-Feeder Structures _____

*Place ✓ by
Sections Not Applicable*

Yes No N/A

General

A. Financial Statements Presented

1. For nonregistered investment companies, are the following financial statements presented:

- a. A statement of assets and liabilities with a schedule of investments or a statement of net assets, which includes a schedule of investments therein, as of the close of the latest period? [At a minimum, a condensed schedule of investments should be provided for each statement of assets and liabilities.] _____
- b. A statement of operations for the latest period? _____
- c. A statement of cash flows for the latest period (if not exempted by SFAS 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale*)? _____
- d. A statement of changes in net assets for the latest period? _____
- e. Financial highlights for the latest period consisting of:
 - (1) Per share operating performance, net investment income, and expense ratios and total return for investment companies organized in a manner using unitized net asset value? _____
 - (2) Net investment income and expense ratios and total return for investment companies not using unitized net asset value? [AAG-INV, par. 7.01] _____

2. For registered investment companies, are the following financial statements presented:

- a. A statement of assets and liabilities with a schedule of investments or a statement of net assets, which includes a schedule of investments therein, (a detailed list of investments in securities, options written, securities sold short and other investments) as of the close of the latest period? [A schedule of investments should be provided for each statement of assets and liabilities in conformity with rule 12-12 of Regulation S-X.] _____
- b. A statement of operations for the latest year? _____
- c. A statement of cash flows for the latest year (if not exempted by SFAS 102) _____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. A statement of changes in net assets for the latest two years (for semiannual reports, the most recent semiannual period and preceding fiscal year)?	_____	_____	_____
e. Financial highlights for the latest five fiscal years ¹ (for semiannual reports, the semiannual period and generally the preceding five fiscal years)? [AAG-INV, par. 7.01]	_____	_____	_____
3. Are financial statements and related disclosures presented for each series in a series fund (one or more series may be presented in a separate document)? [AAG-INV, par. 7.03]	_____	_____	_____
4. For public investment companies organized pursuant to master feeder arrangements, as defined by the SEC, are master financial statements with each feeder financial statement provided, pursuant to SEC requirements? [AAG-INV, par. 7.06]	_____	_____	_____
5. For nonpublic investment companies, are the provisions of SOP 95-2, <i>Financial Reporting by Nonpublic Investment Partnerships</i> , as amended by SOP 01-1, <i>Amendment to Scope of Statement of Position 95-2</i> , <i>Financial Reporting by Nonpublic Investment Partnerships, to Include Commodity Pools</i> followed, or are a complete set of master financial statements with each feeder financial statement, in a manner consistent with the requirements for public investment companies, presented? [AAG-INV, par. 7.06]	_____	_____	_____
B. Reporting Financial Position			
1. If a statement of net assets is presented, is the amount of investments in securities of unaffiliated issuers greater than 95 percent of total assets? [AAG-INV, par. 7.07; Reg. S-X, 6-05]	_____	_____	_____
2. Does the statement of assets and liabilities present a list of assets and liabilities and an amount for net assets equal to the difference between the totals? [AAG-INV, par. 7.08]	_____	_____	_____
3. Does the statement of net assets include a schedule of investments? [AAG-INV, par. 7.09]	_____	_____	_____
4. If a statement of net assets is presented, are details of related-party balances and other assets and liabilities presented in the statement of net assets or in the notes to the financial statements? [AAG-INV, par. 7.09]	_____	_____	_____
5. Are additional disclosures prescribed for a statement of net assets in rule 6.05 of Regulation S-X presented? [AAG-INV, par. 7.09; Reg. S-X, 6.05]	_____	_____	_____
6. Is the net asset value per share for each class of shares of capital stock outstanding presented? [AAG-INV, par. 7.09]	_____	_____	_____

¹ Item 9(a) of Form N-1A requires financial highlights be presented for the latest five years in the funds prospectus. Item 4 of Form N-2 requires financial highlights be presented for the latest ten years in the fund's prospectus. Form N-1A is the registration statement of open-end management investment companies under the Investment Company Act of 1940 and the Securities Act of 1933. Form N-2 is the comparable registration statement for closed-end management investment companies.
[AAG-INV, pars. 1.24 and 7.01]

Yes No N/A

Schedule of Investments

1. In the absence of regulatory requirements,² does the schedule of investments:

a. Disclose the name, share or principal amount of:

- (1) Each investment whose fair value constitutes more than one percent of net assets? _____
- (2) All investments in any one issuer whose fair values aggregate more than one percent of net assets? _____
- (3) At a minimum, the fifty largest investments? _____

b. Categorize investments by:³

- (1) Type? _____
- (2) Related industry, country, or geographic region of the investment? _____

c. Disclose the aggregate other investments, (each of which are not required to be disclosed by 1.a above) without specifically identifying the issuers of such investments, and categorize as required by 1.b above—

- (1) The percent of net assets that each such category represents? _____
- (2) The total value for category in 1.b.1 and 1.b.2 above? _____
[AAG-INV, par. 7.10]

2. For public registrants, do disclosures relating to repurchase agreements include:⁴

a. Parties to the agreement? _____

b. Date of the agreement to repurchase? _____

c. Interest rate? _____

d. Total amount to be received upon repurchase? _____

e. Brief description of the nature and terms of collateral? _____
[AAG-INV, par. 7.11]

3. For public registrants, are investments in restricted securities, affiliated companies, securities subject to call options, and when-issued securities disclosed?⁵ _____
[AAG-INV, par. 7.11]

² Rules 6-03, 6-04, 6-05, 12-12, 12-12A, 12-12B, 12-13 and 12-14 of Regulation S-X apply to registered investment companies.
[AAG-INV, par. 7.10]

³ Additionally, as contemplated by the requirement to disclose certain significant estimates in SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, the use of estimates by directors, general partners, or others in an equivalent capacity to value securities, should be reported in a summarized manner.

⁴ Rule 12-12 of Regulation S-X requires that each issue shall be listed separately.
[AAG-INV, par. 7-11]

⁵ Disclosure of specific information in the notes to the financial statements may also be required by other authoritative pronouncements. For specific requirements concerning disclosures of information relating to restricted securities and affiliated companies, see SEC's *Codification of Financial Reporting Policies*, sections 404.03 and 404.04, and rule 12-14 of Regulation S-X.
[AAG-INV, par. 7-11]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. For public companies, are non-income producing securities identified? [AAG-INV, par. 7.11; Reg. S-X, 12-12]	_____	_____	_____
5. Are securities pledged as collateral identified? [AAG-INV, par. 7.11; Reg. S-X, 4-08(b)]	_____	_____	_____
6. Where a detailed list of short-term investments is presented, has consideration been given to summarizing such investments by issuer, and disclosing their ranges of interest rates and maturity dates? [AAG-INV, par. 7.11]	_____	_____	_____
7. Have investment partnerships that are exempt from SEC registration under the Investment Company Act of 1940:			
a. Categorized investments by:			
(1) Type?	_____	_____	_____
(2) Country or geographic region?	_____	_____	_____
(3) Industry?	_____	_____	_____
b. Reported the percent of net assets that each category represents?	_____	_____	_____
c. Reported the total value and cost for each category in 7.a.1 and 7.a.2 above?	_____	_____	_____
d. Disclosed the name, shares or principal amount, value, and type for:			
(1) Each investment constituting more than five percent of net assets?	_____	_____	_____
(2) All investments in any one issuer aggregating more than five percent of net assets?	_____	_____	_____
e. Aggregated other investments (each of which is five percent or less of net assets):			
(1) Without specifically identifying the issuers?	_____	_____	_____
(2) Categorize them by (1) type, (2) country or geographic region, and (3) industry? [AAG-INV, par. 7.12]	_____	_____	_____
8. If the reporting investment company's proportional share of any investment owned by any individual investee exceeds five percent of the reporting company's net assets at the reporting date, has each such investment been named and categorized as discussed in Step 7 above? [AAG-INV, par. 7.13]	_____	_____	_____
9. If information about the investee's portfolio is not available, is that fact disclosed? [AAG-INV, par. 7.13]	_____	_____	_____
10. Are credit enhancements shown as a component of the security description in the schedule of investments? [AAG-INV, par. 7.14]	_____	_____	_____
11. Is separate disclosure of credit enhancements provided on the face of the schedule of investments, complying, where applicable, with Rules 6-04.1 and 6-04.3 of Reg. S-X? [AAG-INV, par. 7.14]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. Are the terms, conditions and other arrangements relating to credit enhancements disclosed? [AAG-INV, par. 7.14]	_____	_____	_____
13. For a letter of credit, is the name of the institution issuing the letter of credit disclosed separately? [AAG-INV, par. 7.14]	_____	_____	_____
14. Are put options provided by an affiliate described as from an affiliate in the schedule of investments, and the name and relationship of the affiliate included in the notes to the financial statements? [AAG-INV, par. 7.14]	_____	_____	_____
15. Is the aggregate cost of securities for federal income tax purposes disclosed? [Reg. S-X, Rule 12-12, Note 8]	_____	_____	_____
16. Are additional disclosures made in accordance with Reg. S-X, Rule 12-12 pertaining to gross unrealized appreciation for all securities in which there is an excess of value over tax cost and gross unrealized depreciation for all securities in which there is an excess of tax cost over value, as well as net unrealized appreciation or depreciation (on a tax basis)? [AAG-INV, par. 7.75; Reg. S-X, Rule 12-12, Note 8]	_____	_____	_____
17. Are additional disclosures made about restricted securities, in accordance with SEC <i>Codification of Financial Reporting Policies</i> , section 404 and Reg. S-X, Rule 12-12 (Note 6)? [AAG-INV, par. 7.75; Reg. S-X, Rule 12-12, Note 6]	_____	_____	_____

Statement of Assets and Liabilities

A. Assets

1. Investments in Securities

- | | | | |
|---|-------|-------|-------|
| a. Are investments in securities reported as the first asset?
[AAG-INV, par. 7.16] | _____ | _____ | _____ |
| b. If considered material, are the circumstances surrounding the substitution of good-faith estimates of fair value for market quotations or pricing service valuations disclosed in the notes to the financial statements?
[AAG-INV, par. 2.38] | _____ | _____ | _____ |
| c. Does that disclosure include the circumstances surrounding the use of a blockage factor for an unrestricted investment that has a quoted market price in an active market? [See footnote 24 to paragraph 2.38 in the Guide].
[AAG-INV, par. 2.38] | _____ | _____ | _____ |
| d. For investments in foreign securities, have liquidity, size, and valuation been considered for disclosure if such factors exist in the markets in which the fund has material investments?
[AAG-INV, pars. 2.71, 2.72] | _____ | _____ | _____ |
| e. Are appropriate disclosures about the method(s) and significant assumptions used to determine the value of investments stated in the notes to the financial statements?
[Reg. S-X, 6-03(d); AAG-INV, par. 2.133] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. Are investments in securities of unaffiliated issuers shown on the statement and reflected at value, with aggregate cost shown parenthetically? [Reg. S-X, 6-03(d); 6-04(1)]	_____	_____	_____
g. Are of investments in and advances to affiliates reflected at value, and with aggregate cost shown parenthetically? [Reg. S-X, 6-03(d); 6-04(2)]	_____	_____	_____
h. Are of investments in and advances to affiliates stated separately for:			
(1) Controlled companies?	_____	_____	_____
(2) Other affiliates? [Reg. S-X, 6-04.2]	_____	_____	_____
i. Are investments, other than securities, stated separately by major category and at value, with the aggregate cost shown parenthetically? [Reg. S-X, 6-04.3, 6-03(d)]	_____	_____	_____
j. Is an amount for total investments shown on the statement and at value, with the aggregate cost shown parenthetically? [Reg. S-X, 6-04.4, 6-03(d)]	_____	_____	_____
2. Cash			
a. Are cash on hand and demand deposits included under the general caption "Cash"?	_____	_____	_____
b. Are amounts held in foreign currencies disclosed separately at value, with acquisition cost shown parenthetically?	_____	_____	_____
c. Are time deposits and other funds subject to withdrawal or usage restrictions presented separately from other cash amounts, with disclosure of applicable interest rates and maturity dates? [AAG-INV, par. 7.18]	_____	_____	_____
3. Receivables			
a. Are receivables listed separately for each of the following categories, among others:			
(1) Dividends and interest?	_____	_____	_____
(2) Investment securities sold?	_____	_____	_____
(3) Capital stock sold?	_____	_____	_____
(4) Other accounts receivable, such as receivables from related parties, including expense reimbursement receivables from affiliates, and variation margin on open futures contracts? [AAG-INV, par. 7.19]	_____	_____	_____
(5) Directors and officers? [Reg. S-X, 6-04.6]	_____	_____	_____
(6) Notes receivable, if the aggregate amount exceeds ten percent of the aggregate amount of the receivables? [Reg. S-X, 6-04.6]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Other Assets			
a. Are deferred organization and offering costs, prepaid taxes, and prepaid insurance included under this caption, with amounts not reported separately unless significant? [AAG-INV, par. 7.20]	_____	_____	_____
b. For public registrants, are amounts held by others in connection with short sales, option contracts, financial futures contracts, and collateral received for securities loaned stated separately? [AAG-INV, par. 7.20; Reg. S-X, 6-04.7, 6-04.11]	_____	_____	_____
c. Are prepaid and deferred expenses, pension and other special funds, organization expenses, and other significant items not classified in another asset caption stated separately? [Reg. S-X, 6-04.8]	_____	_____	_____
d. Is the unamortized balance of deferred start-up costs or organization costs and remaining amortization period disclosed? [SOP 98-5, par. 23; AAG-INV, par. 8.21]	_____	_____	_____
5. Total Assets			
a. Is the amount of total assets shown on the statement? [Reg. S-X, 6-04.9]	_____	_____	_____
B. Liabilities			
1. Accounts Payable			
a. Are accounts payable listed separately for investment securities purchased, capital stock reacquired, dividends or other distributions on capital shares, and other items? [AAG-INV, par. 7.22, Reg. S-X, 6-04.10]	_____	_____	_____
2. Call or Put Options Written, Futures Contracts Sold, and Securities Sold Short			
a. Are call or put options written and securities sold short at the close of the period presented separately, with premiums received on written options and proceeds from short sales disclosed parenthetically? [AAG-INV, par. 7.23, Reg. S-X, 6-04.10]	_____	_____	_____
b. Is variation margin due to a broker on futures contracts disclosed separately, if significant? [AAG-INV, par. 7.23]	_____	_____	_____
c. Do details of securities sold short, options written, and futures contracts sold include information about quantities, fair values, and proceeds and are they presented within the schedule of investments? [AAG-INV, par. 7.23]	_____	_____	_____
d. Does information presented for options written include the number of shares or principle amount, the fair value of each option, the strike price, and the exercise date? [AAG-INV, par. 7.23]	_____	_____	_____
3. Accrued Liabilities			
a. Do accrued liabilities include liabilities for management fees, distribution fees, interest, compensation, taxes, and other expenses incurred in the normal course of operations, with separate disclosure for related-party payables? [AAG-INV, par. 7.24]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Notes Payable and Other Debt			
a. Are notes payable to banks, including bank overdrafts, and to others, and other debt reported separately? [AAG-INV, par. 7.25]	_____	_____	_____
b. Is information related to unused lines of credit, conditions of credit agreements, and long-term debt maturities disclosed in the notes to the financial statements? [AAG-INV, par. 7.25]	_____	_____	_____
c. Are amounts payable to (1) banks or other financial institutions for borrowings, (2) controlled companies, (3) other affiliates, and (4) others, stated separately, showing for each category amounts payable within one year and amounts payable after one year? [Reg. S-X, 6-04.13a]	_____	_____	_____
d. Is disclosure made regarding unused lines of credit for short-term financing and unused commitments for long-term financing arrangements? [Reg. S-X, 6-04.13b]	_____	_____	_____
5. Other Liabilities			
a. Are amounts due to counterparties for collateral on return of securities loaned, deferred income, and dividends and distributions payable included in other liabilities? [AAG-INV, par. 7.26]	_____	_____	_____
b. For funds with a 12b-1 plan, do the financial statements disclose:			
(1) The principle terms of the plan? (traditional and enhanced plans)	_____	_____	_____
(2) Any plan provisions permitting or requiring payments of excess costs after plan termination? (traditional and enhanced plans)	_____	_____	_____
(3) The aggregate amount of distribution costs subject to recovery through future payments by the fund pursuant to the plan and future contingent deferred sales load payments by current shareholders? (board-contingent and enhanced plans)	_____	_____	_____
(4) The methodology used to estimate future contingent deferred sales load payments by current shareholders? (enhanced plans) [AAG-INV, par. 8.14]	_____	_____	_____
c. Are (1) amounts payable for investment advisory, management and service fees, (2) the total amount payable to (a) officers and directors, (b) controlled companies, and (c) other affiliates, excluding any amounts owing to noncontrolled affiliates which arose in the ordinary course of business and which are subject to usual trade terms, stated separately? [Reg. S-X, 6-04.12]	_____	_____	_____
d. Are the value of securities loaned and the nature of any collateral received as security for the loan stated? [Reg. S-X, 6-04.11]	_____	_____	_____
6. Total Liabilities			
a. Is the amount of total liabilities shown on the statement? [Reg. S-X, 6-04.14]	_____	_____	_____
b. Are commitments and contingent liabilities disclosed? [Reg. S-X, 6-04.15]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
C. Net Assets			
1. Are the following disclosed either on the face of the statement or in the notes: ⁶			
a. Units of capital, including the title and par value of each class of capital shares or other capital units, the number authorized, the number outstanding and the dollar amount?	_____	_____	_____
b. Paid-in capital, which includes the net proceeds received on the sale of capital shares less the cost of reacquired shares and return of capital distributions (that is, tax return of capital distributions)? [In addition, certain differences between GAAP-basis income or gain amounts and tax-basis amounts distributed from income or gain are reclassified to paid-in capital in the period in which such differences become permanent differences.]	_____	_____	_____
c. Distributable earnings (accumulated losses), which includes cumulative net investment income or loss, cumulative amounts of gains and losses realized from investment and foreign currency transactions, and net unrealized appreciation or depreciation of investments and foreign currencies, and distributions paid to shareholders other than tax return of capital distributions? [AAG-INV, par. 7.28]	_____	_____	_____
2. Are the tax-basis components of distributable earnings as of the most recent tax year end: undistributed ordinary income, undistributed long-term capital gains, capital loss carryforwards, and unrealized appreciation (depreciation), disclosed in the notes to the financial statements? [AAG-INV, par. 7.28]	_____	_____	_____
3. Are explanations provided for the differences between the total of these amounts and distributable earnings (accumulated losses)? [AAG-INV, par. 7.28]	_____	_____	_____
4. Is net asset value per share disclosed for each class of shares? [AAG-INV, par. 7.30]	_____	_____	_____
5. Are any other elements of capital or residual interests appropriate to the capital structure of the reporting entity disclosed? [Reg. S-X, 6-04.18]	_____	_____	_____
6. Is the amount of net assets shown? [Reg. S-X, 6-04.19]	_____	_____	_____
7. For a registered investment company, consistent with SEC staff announcement published under EITF Topic D-98, <i>Classification and Measurement of Redeemable Securities</i> , is preferred stock not included under the caption "Net assets" if the investment company may be required to redeem all or part of the preferred stock upon failure to satisfy statistical coverage requirements imposed by its governing documents or a rating agency? [AAG-INV, par. 7.31]	_____	_____	_____

⁶ Rules 6-04.16 and 6-04.17 of Regulation S-X require such information to be included on the face of the statement of assets and liabilities, if such statement is presented.
[AAG-INV, par. 7.28]

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 8. For closed-end funds, are distributions to preferred stockholders presented as a component of the net increase (decrease) in net assets resulting from investment operations, below net investment income on the statement of operations, the statement of changes in net assets and financial highlights?
[AAG-INV, par. 7.31] | _____ | _____ | _____ |

Statement of Operations

A. Income

- | | | | |
|---|-------|-------|-------|
| 1. Are dividends from affiliates and controlled companies disclosed?
[AAG-INV, par. 7.33, Reg. S-X, 6-07.1] | _____ | _____ | _____ |
| 2. Is interest earned on securities of affiliates and controlled companies disclosed separately?
[AAG-INV, par. 7.34] | _____ | _____ | _____ |
| 3. Are individual items in other income, if material, disclosed separately?
[AAG-INV, par. 7.35] | _____ | _____ | _____ |
| 4. Is fee income from securities loaned and from miscellaneous sources included in other income?
[AAG-INV, par. 7.35] | _____ | _____ | _____ |
| 5. Are taxes withheld that are not reclaimable on foreign source income deducted from the relevant income item and shown either parenthetically or as a separate contra item in the income section?
[AAG-INV, par. 2.95] | _____ | _____ | _____ |
| 6. If noncash dividends are included in income, are the bases of recognition and measurement used disclosed?
[Reg. S-X, 6-07.1] | _____ | _____ | _____ |
| 7. Are income from dividends, interest on securities, and other income that exceeds five percent of total income stated separately?
[Reg. S-X, 6-07.1] | _____ | _____ | _____ |

B. Expenses

- | | | | |
|---|-------|-------|-------|
| 1. Are the following expenses reported separately: | | | |
| a. Investment advisory (management) fees (or compensation)? | _____ | _____ | _____ |
| b. Administration fees payable to an affiliate (if accrued under a separate agreement)? | _____ | _____ | _____ |
| c. Shareholder service costs, including fees and expenses for the transfer agent and dividend disbursing agent? | _____ | _____ | _____ |
| d. Distribution (12b-1) expenses? | _____ | _____ | _____ |
| e. Custodian fees? | _____ | _____ | _____ |
| f. Costs of reports to shareholders? | _____ | _____ | _____ |
| g. Federal and state income taxes, shown separately after the income category to which they apply, such as investment income and realized or unrealized gains? | _____ | _____ | _____ |
| h. Other taxes (foreign withholding taxes deducted from the relevant income item and disclosed parenthetically or shown as a separate contra item in the income section)? | _____ | _____ | _____ |
| i. Interest, including interest on debt, bank borrowings, and reverse repurchase agreements? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
j. Dividends on securities sold short?	_____	_____	_____
k. Professional fees?	_____	_____	_____
l. Directors' or trustees' fees?	_____	_____	_____
m. Registration fees and expenses? [AAG-INV, par. 7.36]	_____	_____	_____
2. Are amounts paid to affiliates or related parties, (such as advisory fees, administrative fees, distribution fees, brokerage commissions, and sales charges) disclosed? [AAG-INV, par. 7.37; Reg. S-X, 6-07.2(e)]	_____	_____	_____
3. Are significant provisions of related-party agreements, including the basis for determining management, advisory, administration, or distribution fees, and other amounts paid to affiliates or related parties, described in a note to the financial statements? [AAG-INV, par. 7.37]	_____	_____	_____
4. Are all voluntary and involuntary waivers disclosed on the face of the statement of operations as a reduction of total expenses? [AAG-INV, par. 7.38]	_____	_____	_____
5. Are the terms of all voluntary and involuntary waivers disclosed in the notes to the financial statements? [AAG-INV, par. 7.38]	_____	_____	_____
6. If a 12b-1 distribution reimbursement plan provides for the carryover of unreimbursed costs to subsequent periods, are the terms of reimbursement and the unreimbursed amount disclosed? [AAG-INV; pars. 7.39, 8.07]	_____	_____	_____
7. If the investment company has a brokerage service arrangement with a broker-dealer or an affiliate of a broker-dealer under which the broker-dealer (or its affiliate), in connection with the investment company's brokerage transactions directed to the broker-dealer, provides or pays for services to the investment company (other than brokerage and research services as those terms are used in section 28(e) of the Securities Exchange Act of 1934):			
a. Does the relevant expense caption on the statement of operations and the expense ratio in the financial highlights include the amount that would have been incurred by the investment company for such services had it paid for the services directly in an arms-length transaction?	_____	_____	_____
b. Are such amounts also shown as a corresponding reduction in total expenses, captioned as "Fees paid indirectly?"	_____	_____	_____
c. For registered investment companies, do the notes to the financial statements include the total amounts by which expenses are increased, and list each category that is increased by at least 5 percent of total expenses? [AAG-INV, par. 7.40; Reg. S-X, 6-07.2(g)]	_____	_____	_____
8. Are expense offset arrangements, under which a third party explicitly reduces its fees by a specified or readily ascertainable amount for services provided to the investment company in exchange for use of the investment company's assets, presented in the statement of operations, the expense ratio in the financial highlights, and notes to the financial statements in the same manner as brokerage service arrangements? [AAG-INV, par. 7.41]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
9. For investment companies organized as limited partnerships that receive advisory services from the general partner (many partnerships pay fees for such services; others allocate net income from the limited partners' capital accounts to the general partner's capital account; others employ a combination of the two methods):			
a. Are the amounts of any such payments or allocations presented in either the statement of operations or the statement of changes in partners' capital in accordance with the partnership agreement?	_____	_____	_____
b. Is the method of computing such payments or allocations described in the notes to the financial statements? [AAG-INV, par. 7.42]	_____	_____	_____
10. Is the existence of reimbursement agreements and, if material, the carryover of excess expenses potentially reimbursable to the adviser but not recorded as a liability disclosed in the notes to the financial statements? [AAG-INV, par. 8.05]	_____	_____	_____
11. Is deferred income tax expense presented separately? [AAG-INV, par. 6.08]	_____	_____	_____
12. Is the total amount of investment advisory, management and service fees, and expenses in connection with research, selection, supervision and custody of investments stated separately, with reductions or reimbursements of management or service fees shown as a negative amount or reduction of the total expenses shown under this caption? [Reg. S-X, 6-07.2(a)]	_____	_____	_____
13. Are amounts of expenses incurred from transactions with affiliated persons disclosed together with the identity of the related amount applicable to each such person accounting for five percent or more of the total expenses shown together with a description of the nature of the affiliation? [Reg. S-X, 6-07.2(a)]	_____	_____	_____
14. Are expenses incurred within the person's own organization in connection with research, selection, and supervision of investments stated separately? [Reg. S-X, 6-07.2(a)]	_____	_____	_____
15. Based on SEC requirements are expenses exceeding five percent of total expenses separately disclosed? [AAG-INV, par. 7.36; Reg. S-X, 6-07.2(b)]	_____	_____	_____
16. Is information concerning management and service fees, the rate of the fee, and the base and method of computation disclosed? [Reg. S-X, 6-07.2(c)]	_____	_____	_____
17. Are a description and the amount of any fee reductions or reimbursements representing expense limitation agreements or commitments stated separately? [Reg. S-X, 6-07.2(c)]	_____	_____	_____
18. Is a description and the amount of any fee reductions or reimbursements representing offsets received from broker-dealers showing separately for each amount received or due from (a) unaffiliated persons, and (b) affiliated persons stated separately? [Reg. S-X, 6-07.2(c)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
19. If no management or service fees are incurred, have the reasons therefore been disclosed? [Reg. S-X, 6-07.2(c)]	_____	_____	_____
20. If expenses are paid other than in cash, are the details disclosed? [Reg. S-X, 6-07.2(d)]	_____	_____	_____
21. Are the net amounts of sales charges deducted from the proceeds of sale of capital shares that were retained by any affiliated principal underwriter or other affiliated broker-dealer disclosed? [Reg. S-X, 6-07.2(e)]	_____	_____	_____
22. Is the company's status as "regulated investment company" (as described in the Internal Revenue Code) disclosed, including a description of the principal assumptions on which the company relied in making or not making provisions for income taxes? [Reg. S-X, 6-03(h)]	_____	_____	_____
23. Is the aggregate remuneration paid to the following people disclosed:			
a. To all officers?	_____	_____	_____
b. To directors and members of any advisory board for regular compensation?	_____	_____	_____
c. To each director and members of any advisory board for special compensation?	_____	_____	_____
d. To each person of whom an officer or director is an affiliated person? [Form N-1A, Item 22(b)(3)]	_____	_____	_____
24. Is the average dollar amount of borrowings and the average interest rate disclosed in the statement of operations or in the footnotes to the financial statements? [Reg. S-X, 6-07.3]	_____	_____	_____
25. Have appropriate expenses been increased for amounts under brokerage/service arrangements and expense offset arrangements and total expenses reduced by the total amount of such arrangements? [Reg. S-X, 6-07.2(g)]	_____	_____	_____
26. Have required disclosures been made in the notes to the financial statements related to brokerage/service arrangements and expense offset arrangements? [Reg. S-X, 6-07.2(g)]	_____	_____	_____
C. Net Investment Income			
1. Is any income tax provision relating to net investment income disclosed separately? [AAG-INV, par. 7.43]	_____	_____	_____
2. Is the excess of investment income over total expenses shown as net investment income (loss)? [AAG-INV, par. 7.43]	_____	_____	_____
D. Realized and Unrealized Gain or Loss from Investments and Foreign Currency Transactions			
1. For net realized gain or loss from investments:			
a. Are net realized gains or losses disclosed in the statement of operations?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. For registered investment companies, are major kinds of investment transactions disclosed as required by rule 6.07.7 of Regulation S-X?	_____	_____	_____
c. Are net realized gains or losses resulting from sales or other disposals reported net of brokerage commissions?	_____	_____	_____
d. Is the income tax provision charged against realized gains disclosed separately?	_____	_____	_____
e. Are gains or losses from in-kind redemptions disclosed?	_____	_____	_____
f. Do the notes to the financial statements state the entity's practice of either including or excluding that portion of realized and unrealized gains and losses from investments that result from foreign currency changes with or from other foreign currency gains and losses? [AAG-INV, par. 7.44; Reg. S-X]	_____	_____	_____
2. For net realized gains or losses from foreign currency transactions:			
a. Are net gains or losses from assets or liabilities denominated in foreign currencies during the period reported separately? [AAG-INV, par. 7.45]	_____	_____	_____
b. Are proceeds from sales and maturities of securities and the cost of securities purchased disclosed (exclusion of short-term securities from this disclosure is permitted, and information about common stocks, bonds, and preferred stocks may be combined or disclosed separately)? [AAG-INV, par. 7.46]	_____	_____	_____
3. For net increase (decrease) in unrealized appreciation or depreciation on investments:			
a. Are changes in net unrealized appreciation or depreciation during the period reported in the statement of operations? [AAG-INV, par. 7.47]	_____	_____	_____
b. Are major components of unrealized appreciation or depreciation on investments disclosed in a manner that is consistent with Step 1 above (the guidance in paragraph 7.44 in the Guide)? [AAG-INV, par. 7.47]	_____	_____	_____
c. Is any provision for deferred taxes reported separately? [AAG-INV, par. 7.47]	_____	_____	_____
d. If a provision for deferred income taxes on unrealized appreciation exists, is it charged against the unrealized gains account and disclosed as such in the statement of operations? [AAG-INV, par. 7.28]	_____	_____	_____
4. Are net changes during the period from translating assets and liabilities denominated in foreign currencies reported as "Net Increase (Decrease) in Unrealized Appreciation or Depreciation on Translation of Assets and Liabilities in Foreign Currencies"? [AAG-INV, par. 7.48]	_____	_____	_____
5. Are payments made by affiliates for the reasons described in paragraph 7.49 in the Guide, combined and reported as a separate line item entitled "net increase from payments by affiliates and net gains (losses) realized on the disposal of investments in violation of restrictions" in the statement of operations as part of net realized and unrealized gains (losses) from investments and foreign currency? [AAG-INV, par. 7.50]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Are amounts and circumstances of payments by affiliates to reimburse the fund for losses on investment transactions described in the notes to the financial statements? [AAG-INV, par. 7.50]	_____	_____	_____
7. Are gains and losses on investments not meeting investment guidelines of the fund also disclosed in the notes to the financial statements? [AAG-INV, par. 7.50]	_____	_____	_____
8. Are the following stated separately:			
a. Net realized gain or loss on transactions in:			
(1) Investment securities of unaffiliated issuers?	_____	_____	_____
(2) Investment securities of affiliated issuers?	_____	_____	_____
(3) Investments other than securities? [Reg. S-X, 6-07.7(a)]	_____	_____	_____
b. Gain or loss from expiration or closing of option contracts written? [Reg. S-X, 6-07.7(c)]	_____	_____	_____
c. Gain or loss on closed short positions in securities? [Reg. S-X, 6-07.7(c)]	_____	_____	_____
d. Other realized gain or loss? [Reg. S-X, 6-07.7(c)]	_____	_____	_____
e. Federal income taxes and other income taxes applicable to realized and unrealized gain (loss) on investments, distinguishing taxes payable currently from deferred income taxes? [Reg. S-X, 6-07.7(e)]	_____	_____	_____
9. Do the notes to the financial statements disclose the number and associated dollar amounts as to option contracts written:			
a. At the beginning of the period?	_____	_____	_____
b. During the period?	_____	_____	_____
c. Expired during the period?	_____	_____	_____
d. Closed during the period?	_____	_____	_____
e. Exercised during the period?	_____	_____	_____
f. Balance at end of the period? [Reg. S-X, 6-07.7(c)]	_____	_____	_____
10. Are distributions of realized gains by other investment companies disclosed separately? [Reg. S-X, 6-07.7(b)]	_____	_____	_____
E. Net Realized and Unrealized Gain or Loss from Investments and Foreign Currency			
1. Is the sum of the net realized gain or loss and change in unrealized gain or loss on investments and foreign-currency-denominated assets and liabilities presented in the statement of operations as a net gain or loss on investments and foreign currency? [AAG-INV, par. 7.52]	_____	_____	_____
F. Net Increase or Decrease in Net Assets From Operations			
1. Is the sum of net investment income or loss and net realized and unrealized gain or loss on investments and foreign currency shown as a net increase or decrease in net assets resulting from operations? [AAG-INV, par. 7.53]	_____	_____	_____

Yes	No	N/A
-----	----	-----

Statement of Changes in Net Assets

1. Does the increase or decrease in net assets of a registered investment company comprise the following categories:

a. Operations, with separate presentation of:

- | | | | |
|--|-------|-------|-------|
| (1) Net investment income or loss? | _____ | _____ | _____ |
| (2) Net realized gains or losses from investments and foreign currency transactions? | _____ | _____ | _____ |
| (3) Changes in unrealized appreciation or depreciation on investments and translation of assets and liabilities in foreign currencies? | _____ | _____ | _____ |

b. Net equalization debits or credits:

- | | | | |
|--|-------|-------|-------|
| (1) If equalization accounting is used, is undistributed investment income included in the price of capital shares issued or reacquired shown as a separate line item? | _____ | _____ | _____ |
|--|-------|-------|-------|

c. Distributions to shareholders:

- | | | | |
|--|-------|-------|-------|
| (1) Are distributions disclosed as a single line item, except for tax return of capital distributions, which should be disclosed separately? | _____ | _____ | _____ |
| (2) Are the tax-basis components of dividends paid disclosed in the notes? | _____ | _____ | _____ |
| (3) Are the primary reasons for any significant difference between total GAAP-basis net investment income and net realized gain and actual distributions disclosed in the notes to the financial statements? | _____ | _____ | _____ |
| (4) If the investment company distributes, after year end, a portion of undistributed investment income and security gains realized in the preceding year, are per share amounts relating to those distributions, if declared before the audit opinion date, disclosed in the notes to the financial statements? | _____ | _____ | _____ |

d. Capital share transactions:

- | | | | |
|--|-------|-------|-------|
| (1) Is the net change in net assets (excluding amounts shown separately if equalization accounting is used) arising from capital share transactions disclosed for each class of shares, and are the components of the change disclosed on the face of the statement or in the notes to the financial statements for each class of shares as follows: | | | |
| (a) The number and value of shares sold? | _____ | _____ | _____ |
| (b) The number and value of shares issued in reinvestment of distributions? | _____ | _____ | _____ |
| (c) The number and cost of shares reacquired? | _____ | _____ | _____ |
| (d) The net change? | _____ | _____ | _____ |

e. Capital contributions?
[AAG-INV, par. 7.55]

- | | | | |
|--|-------|-------|-------|
| 2. Are net assets at the beginning of the year and at the end of the year disclosed?
[AAG-INV, par. 7.55] | _____ | _____ | _____ |
|--|-------|-------|-------|

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 3. For registered investment companies that use equalization accounting, are net equalization debits or credits disclosed as required by Reg. S-X Rule 6-09.2?
[AAG-INV, par. 4.29; Reg. S-X, 6-09.2] | _____ | _____ | _____ |

Statement of Cash Flows

- | | | | |
|--|-------|-------|-------|
| 1. If a statement of cash flows is required, and presented using the direct method, is the following information disclosed: | | | |
| a. For cash flows from operating activities (cash flows from operating activities should include the fund's investing activities): | | | |
| (1) Interest and dividends received? | _____ | _____ | _____ |
| (2) Operating expenses paid? | _____ | _____ | _____ |
| (3) Purchases of long-term investments (at cost)? | _____ | _____ | _____ |
| (4) Sales of long-term investments (proceeds)? | _____ | _____ | _____ |
| (5) Net sales or purchases of short-term investments? | _____ | _____ | _____ |
| (6) Cash flows for other types of investing activities related to changes in margin accounts and collateral status, such as written options, financial futures contracts, securities lending and so forth?
[AAG-INV, par. 7.60] | _____ | _____ | _____ |
| b. For cash flows from financing activities: | | | |
| (1) Issuance and redemption of fund shares, including both common and preferred shares (excluding reinvestment of dividends and distributions)? | _____ | _____ | _____ |
| (2) Proceeds from and repayments of debt? | _____ | _____ | _____ |
| (3) Dividends and distributions to shareholders (not including stock or reinvested dividends and distributions)? | _____ | _____ | _____ |
| (4) Bank overdrafts?
[AAG-INV, par. 7.61] | _____ | _____ | _____ |
| 2. Does the reconciliation of net cash provided by or used for operating activities to net increase or decrease in net assets from operating activities include the following: | | | |
| a. Changes in noninvestment asset and liability accounts? | _____ | _____ | _____ |
| b. Noncash income and expense items? | _____ | _____ | _____ |
| c. Realized and unrealized gains and losses on investment and foreign currency transactions?
[AAG-INV, par. 7.62] | _____ | _____ | _____ |
| 3. Is the effect of any foreign exchange fluctuations on cash balances disclosed as a separate line item?
[AAG-INV, par. 7.63] | _____ | _____ | _____ |
| 4. Is information about noncash investing and financing activities, such as reinvestments of dividends and distributions, disclosed?
[AAG-INV, par. 7.64] | _____ | _____ | _____ |

Financial Highlights

- | | | | |
|--|-------|-------|-------|
| 1. Are financial highlights presented either as a separate schedule or within the notes to the financial statements for each class of common shares outstanding?
[AAG-INV, par. 7.65] | _____ | _____ | _____ |
|--|-------|-------|-------|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are per share amounts presented based on a share outstanding throughout each period presented? [AAG-INV, par. 7.65]	_____	_____	_____
3. For investment companies with multiple classes of shares, are financial highlights presented only for those classes of shares that are included in reports to such shareholders? [AAG-INV, par. 7.65]	_____	_____	_____
4. In such cases, does the investment company include appropriate disclosures related all classes so as to ensure that the financial statements are complete? [AAG-INV, par. 7.65]	_____	_____	_____
5. Is the following per share information presented for registered investment companies and investment companies that compute unitized net asset value?			
a. Net asset value at the beginning of the period?	_____	_____	_____
b. Per share net investment income or loss, calculated for registered investment companies in accordance with the requirements of Form N-1A or N-2, or other acceptable method?	_____	_____	_____
c. If used by a registered investment company, is the method employed disclosed in a note to the table in conformity with SEC requirements?	_____	_____	_____
d. Realized and unrealized gains and losses per share, and if applicable, the reasons why the amount in this caption does not agree with the change in aggregate gains and losses for the period?	_____	_____	_____
e. Total from investment operations?	_____	_____	_____
f. Distributions to shareholders as a single line item, except that tax return of capital distributions is disclosed separately?	_____	_____	_____
g. Purchase premiums, redemption fees, and other capital items?	_____	_____	_____
h. Payments by affiliates?	_____	_____	_____
i. Net asset value at the end of the period?	_____	_____	_____
j. Market value at the end of the period (Form N-2 registrants only)? [AAG-INV, par. 7.66]	_____	_____	_____
6. Is the total return presented for all investment companies? [AAG-INV, par. 7.68]	_____	_____	_____
7. For interim periods, does the disclosure include whether or not total return is annualized? [AAG-INV, par. 7.68]	_____	_____	_____
8. Does the information filed on Forms N-1A and N-2 include:			
a. Net assets, end of period?	_____	_____	_____
b. Portfolio turnover rate?	_____	_____	_____
c. If the investment company filing on Form N-2 has debt outstanding, the average amount of borrowings outstanding during the period, the weighted average number of the fund's shares outstanding during the period, and the average amount of debt per share during the period? [AAG-INV, par. 7.69]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
9. Is the effect on total return of payments by affiliates related to investment losses, as described in paragraph 7.49 in the Guide, as well as any gains or losses on investments not meeting investment guidelines of the fund, quantified and disclosed in the financial highlights in a manner similar to disclosure of the effect of voluntary waivers of fees and expenses on expense ratios? [AAG-INV, par. 7.50]	_____	_____	_____
10. Is the effect of voluntary waivers on the expense ratio disclosed, either as the basis point effect on the ratio or as the gross expense ratio, in a note to or as part of the financial highlights? [AAG-INV, par. 7.38]	_____	_____	_____
11. Is the expense ratio in the financial highlights shown net of voluntary and involuntary waivers? [AAG-INV, par. 7.38]	_____	_____	_____

Other Disclosure Requirements

1. Are the amounts and expiration dates of capital loss carryforwards and the amounts of any post-October capital and currency loss deferrals (see footnote 25 to paragraph 7.71 in the Guide) disclosed, if significant? [AAG-INV, par. 7.71]	_____	_____	_____
2. Is the fact that the fund is not subject to income taxes disclosed, if applicable? [AAG-INV, par. 7.71]	_____	_____	_____
3. If the fund is not subject to income taxes, is the net difference between the tax bases and the reported amounts of the fund's assets and liabilities disclosed? [AAG-INV, par. 7.71]	_____	_____	_____
4. For tax-free business combinations of investment companies:			
a. Is the amount of unrealized appreciation or depreciation and the amount of undistributed investment company income of the acquired fund at the date of acquisition disclosed, if significant? [AAG-INV, par. 8.39]	_____	_____	_____
b. Are the costs of purchases and proceeds from sales of portfolio securities that occurred in the effort to realign the fund's portfolio excluded in the portfolio turnover calculation and the amount of excluded purchases and sales disclosed in a note? [AAG-INV, par. 8.40]	_____	_____	_____
5. For all business combinations:			
a. Is a summary of the essential elements of the combination disclosed (effective date; number and fair value of shares issued by the surviving company; the exchange ratio; tax status; tax attributes)?	_____	_____	_____
b. Are separate and combined aggregate net assets presented as of the date of combination? [AAG-INV, par. 8.42]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Are additional disclosures made as required by Rule 4-08(m) of Regulation S-X if the carrying amounts of repurchase or reverse repurchase agreements that exceed 10 percent of total assets or the amount at risk (as defined) under such agreements exceeds 10 percent of net asset value? [Reg. S-X, Rule 4-08(m)]	_____	_____	_____
7. Are additional disclosures made in accordance with Reg. S-X, Rule 6-06 pertaining to special provisions applicable to the balance sheets of issuers of face-amount certificates? [Reg. S-X, Rule 6-06]	_____	_____	_____
8. Are additional disclosures made in accordance with Reg. S-X, Rule 6-08 pertaining to special provisions applicable to the statements of operations of issuers of face-amount certificates? [Reg. S-X, Rule 6-08]	_____	_____	_____

Interim Financial Statements

1. Are semiannual reports to shareholders for registered investment companies complete, based on GAAP, and conform to principles used in preparing annual financial statements? [AAG-INV, par. 7.72]	_____	_____	_____
2. Does the statement of changes in net assets for registered investment companies present information on the latest interim period and the preceding fiscal year? [AAG-INV, par. 7.72]	_____	_____	_____
3. Are financial highlights presented, at a minimum, for similar periods? [AAG-INV, par. 7.72]	_____	_____	_____
4. If management of a fund determines that a tax return of capital is likely to occur for the fund's fiscal year, although the exact amount may not be estimable, is that fact disclosed in a note to the interim financial statements? [AAG-INV, par. 7.73]	_____	_____	_____
5. Is unaudited interim financial data marked accordingly? [AAG-INV, par. 7.74]	_____	_____	_____
6. Is data summarized in condensed form also labeled? [AAG-INV, par. 7.74]	_____	_____	_____
7. If the auditor is named or identified in interim reports on which he or she has performed no audit or review procedures, has the auditor insisted that the reference be deleted or that a notation be included that the auditor does not express an opinion? [AAG-INV, par. 7.74]	_____	_____	_____

Note: Form N-SAR is the semiannual and annual report filed with the SEC by all registered management investment companies, small business investment companies, and unit investment trusts.
[AAG-INV, par. 8.28]

Yes No N/A

Funds With Multiple Classes of Shares or Master-Feeder Structures

1. For multiple-class funds:

- a. In the statement of assets and liabilities, is the composition of net assets reported in total and net asset value per share, shares outstanding and maximum public offering price per share reported for each class?
[AAG-INV, par. 5.28]
- b. In the statement of operations, are class-specific expenses reported for each class, or disclosed in the notes to the financial statements?
[AAG-INV, par. 5.29]
- c. In the statement of changes in net assets, are dividends and distributions paid to shareholders and capital share transactions for each class presented or disclosed in the notes to the financial statements?
[AAG-INV, par. 5.30]
- d. Do the notes to the financial statements:
 - (1) Describe each class of shares, including sales charges, shareholder servicing fees, and distribution fees?
 - (2) Disclose the method used to allocate income and expenses, and realized and unrealized capital gains and losses, to each class?
 - (3) Describe fee arrangements for class-specific distribution plans and for any other class-level expenses paid to affiliates?
 - (4) Disclose capital share transactions (if not disclosed separately in the statement of changes in net assets) for each class?
 - (5) Disclose total sales charges paid to any affiliates for each class?
[AAG-INV, par. 5.31]
- e. Are financial highlights, including total return, presented by class, except for portfolio turnover (portfolio turnover is required for registered investment companies only)?
[AAG-INV, par. 5.32]

2. For master-feeder funds:

- a. Do the annual and semiannual reports for feeder funds contain two sets of financial statements, one for the master fund and the other for the specific feeder fund?
[AAG-INV, par. 5.33]
- b. In the statement of assets and liabilities:
 - (1) Is an investment in the master fund shown in each feeder fund's statement of assets and liabilities?
 - (2) Is the total of all feeder funds' investments in the master fund equal to the total net assets of the master fund?
 - (3) Is the net asset value per share, total shares outstanding, and the components of net assets reported?
[AAG-INV, par. 5.34]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) Is the portfolio of investments included only in the master fund's financial statements? [AAG-INV, par. 5.36]	_____	_____	_____
c. In the statement of operations:			
(1) Are the details of the feeder fund's allocated share of net investment income from the master fund reported?	_____	_____	_____
(2) Is the feeder's allocated share of the master fund's realized and unrealized gains and losses reported?	_____	_____	_____
(3) Does the total of all feeders' income, expense, and realized and unrealized gain or loss components agree to the corresponding totals of the master fund?	_____	_____	_____
(4) Do the feeder funds disclose their fund-specific expenses?	_____	_____	_____
(5) Are fee waivers or reimbursements at the feeder-fund level reported? [AAG-INV, par. 5.37]	_____	_____	_____
(6) For master funds, is the standard reporting format for investment companies with simple capital structures used? [AAG-INV, par. 5.38]	_____	_____	_____
d. In the statement of changes in net assets:			
(1) For feeder funds, is the standard reporting format for investment companies with simple capital structures used? [AAG-INV, par. 5.39]	_____	_____	_____
(2) Do master funds report capital transactions from or to feeder funds as contributions and withdrawals, respectively? [AAG-INV, par. 5.40]	_____	_____	_____
e. Do the notes to the financial statements of each feeder fund include:			
(1) A general description of the master and feeder structure?	_____	_____	_____
(2) The feeder's percentage ownership share of the particular master fund at the reporting date?	_____	_____	_____
(3) A statement that the feeder invests all of its investable assets in a corresponding open-end management investment company having the same investment objectives as the feeder?	_____	_____	_____
(4) A reference to the financial statements of the master fund, including the portfolio of investments? [AAG-INV, par. 5.41]	_____	_____	_____
(5) Disclosure or reference to the accounting policies of the master fund that affect the feeders? [AAG-INV, par. 5.42]	_____	_____	_____
f. Do the financial highlights:			
(1) Include expenses of both the feeder and the master fund in the feeder fund's ratios of expenses and net investment income to average net assets?	_____	_____	_____
(2) Reflect balance credits earned by the master fund in the feeder fund ratios as if they had been earned by the feeder fund directly?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(3) To the extent the financial highlights table conforms to the instructions of Form N-1A, report the portfolio turnover rate experienced by the master? [The financial highlights of feeder funds that are registered investment companies should comply with the same requirements as for registered investment companies not organized in a master-feeder structure]. [AAG-INV, par. 5.43]	_____	_____	_____
g. Does the master fund financial highlights section:			
(1) Include the total return, ratios of expenses, and net investment income to average net assets and portfolio turnover rate if the master fund is organized as a partnership (portfolio turnover is required for registered investment companies only)? [AAG-INV, par. 5.44]	_____	_____	_____
(2) Report normal per share data if the master fund is not organized as a partnership? [AAG-INV, par. 5.44]	_____	_____	_____
3. For funds of funds:			
a. In the statement of assets and liabilities:			
(1) Have additional disclosures been considered for funds that hold a mixture of investments in other investment companies and direct investments in securities? [AAG-INV, par. 5.47]	_____	_____	_____
(2) Has consideration been given to whether an investment in a single underlying fund is so significant to the fund of funds as to make the presentation of financial statements in a manner similar to a master-feeder fund more appropriate? [AAG-INV, par. 5.48]	_____	_____	_____
b. In the statement of operations:			
(1) Does income represent the net earnings received from investee funds? [AAG-INV, par. 5.49]	_____	_____	_____
(2) Are agreements for investee funds to assume certain of the investor fund expenses disclosed in the notes? [AAG-INV, par. 5.49]	_____	_____	_____
(3) When investing in registered investment companies, are distributions received from long-term capital gains reported as realized gains together with gains realized on disposition of shares of investee companies? [AAG-INV, par. 5.50]	_____	_____	_____
c. In the financial highlights:			
(1) Are net investment income and expense ratios computed based upon amounts reported in the statement of operations?	_____	_____	_____
(2) Is portfolio turnover measured based on the turnover of investments made by the reporting fund in investee funds? [AAG-INV, par. 5.52]	_____	_____	_____
d. Do the notes to the financial statements include:			
(1) A general description of the fund of funds structure?	_____	_____	_____
(2) Disclosure of valuation policy-values, generally based on information reported by investee funds?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(3) Has consideration been given to whether, and to what extent, disclosure of the investee funds' investment policies is appropriate? [AAG-INV, par. 5.53]	_____	_____	_____
4. Have significant transactions of the master fund been properly disclosed in the feeder fund's financial statements? [AAG-INV, par. 5.71]	_____	_____	_____

FSP Section 12,400

Illustrative Financial Statements

.01 The following illustrative auditor's report and financial statements demonstrate one form of currently acceptable practice. The illustrative financial statements in this section 12,400 are reproduced from the AICPA Audit and Accounting Guide *Audits of Investment Companies* with conforming changes as of May 1, 2002. The illustrative financial statements are intended to provide sample financial statement formats and disclosures, and are not intended to illustrate all disclosures required by GAAP or all of the disclosures covered in the financial statement checklist. Other forms of financial statements are acceptable. More or less detail should appear either in the financial statements or in the notes, depending on the circumstances. The illustrative financial statements presented are those of a registered investment company and therefore include certain, but not all disclosures required by SEC regulation in addition to requirements under GAAP.

.02

Independent Auditor's Report

To the Shareholders and Board of Directors of

XYZ Investment Company:

We have audited the accompanying statement of assets and liabilities of XYZ Investment Company, including the schedule of investments, as of December 31, 20X4, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 20X4, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of XYZ Investment Company as of December 31, 20X4, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor

Anytown, USA

January 21, 20X5

.03

The checklist and illustrative financial statements do not include all disclosures and presentation items promulgated.

XYZ Management Investment Company

Statement of Assets and Liabilities

December 31, 20X4

Assets

Investments in securities, at fair value (cost \$19,292,000)—including \$570,000 of securities loaned (Note 8) ¹	\$21,721,000
Cash denominated in foreign currencies (cost \$141,000)	139,000
Cash	60,000
Deposits with brokers for securities sold short	1,555,000
Receivables	
Dividends and interest	46,000
Investment securities sold	24,000
Capital stock sold	54,000
Unrealized gain on foreign currency exchange contract (Note 8)	419,000
Other assets	26,000
Total assets	<u>24,044,000</u>

Liabilities

Call options written, at fair value (premiums received \$110,000)	230,000
Securities sold short, at fair value (proceeds \$1,555,000)	1,673,000
Demand loan payable to bank (Note 5)	2,000,000
Payable upon return of securities loaned (Note 8)	620,000
Unrealized loss on foreign currency exchange contract (Note 8)	108,000
Due to broker—variation margin	10,000

Payables

Investment securities purchased	52,000
Capital stock reacquired	8,000
Other	4,000
Accrued expenses	8,000
Distribution payable	158,000
Total liabilities	<u>4,871,000</u>

Net assets	<u>\$19,173,000</u>
------------	---------------------

Analysis of Net Assets:

Net capital paid in on shares of capital stock	\$15,184,000
Distributable earnings	3,989,000
Net assets (equivalent to \$4.55 per share based on 4,216,000 shares of capital stock outstanding) (Note 6)	<u>\$19,173,000</u>

¹ Investments in securities include securities purchased with cash proceeds from securities loans.

When cash is received as collateral in secured borrowings, the cash received should be recognized as the investment company's asset along with the obligation to return the cash. If the investment company makes investments with the cash, even if made by agents or in pools with other securities lenders, the investment company should reflect the investments as part of its holdings in the schedule of investments and should footnote any restrictions associated with the investment because of the collateral arrangements.

With regard to collateral received in the form of securities in secured borrowings, if the securities received may be sold or repledged, the investment company should account for those securities in the same way as it would account for cash received. That is, the investment company should record the securities received as the investment company's asset along with the obligation to return the securities. However, if the investment company does not have the right to sell or repledge the securities received as collateral, then the investment company should not record the securities or the related liability on its books.

The accompanying notes are an integral part of these financial statements.

.04

XYZ Management Investment Company
Schedule (or Portfolio) of Investments in Securities
December 31, 20X4

Note: Securities may be arranged by industry groupings or other groupings (showing percentage of total portfolio or of net assets invested in each grouping) that the Company believes are most meaningful to users. The basis of the computation of percentages shown (which in this illustration is the ratio of the specific category of securities to the total portfolio owned) should be disclosed.

	<i>Principal Amount or Shares</i>	<i>Fair Value</i>
<i>Common stocks—29%</i>		
Consumer durable goods—5%		
Allied Manufacturing Corporation*	25,000	\$ 620,000
Baker Industries, Inc.**	15,000	150,000
Consumer Goods Company*	8,000	300,000
Other		16,000
		<u>1,086,000</u>
Consumer nondurable goods—16%		
Amalgamated Buggy Whips, Inc. (Note 2)	10,000	3,280,000
American Company	4,000	100,000
Other		55,000
		<u>3,435,000</u>
Service industries—4%		
Service Company, Inc.	10,000	465,000
Cannon Sales	13,000	400,000
Other		4,000
		<u>869,000</u>
Other industry groupings—4%		<u>921,000</u>
<i>[Additional industry groupings and details of the fifty largest holdings are not included in this illustration]</i>		
Total common stocks		<u>6,311,000</u>
<i>Convertible bonds—25%</i>		
American Retailing Inc.—5.5% debenture due 20XX	\$ 500,000	525,000
Paper Airplane Corporation—6.25% debenture due 20XX	4,500,000	4,875,000
Total convertible securities		<u>5,400,000</u>
<i>Indexed securities—10%</i>		
American Trust Co. (principal linked to deutsche mark yield curve)—10% due 20XX	2,000,000	2,100,000
<i>Mortgage-backed securities—12%</i>		
FNMA 8% due 20XX	\$2,000,000	\$ 1,950,000
FNMA strip, principal only, zero coupon, due 20XX	1,000,000	760,000
Total mortgage-backed securities		<u>2,710,000</u>
<i>U.S. government obligations—16%</i>		
U.S. Treasury 6% notes due 20XX	500,000	490,000
U.S. Treasury 8% notes due 20XX	3,000,000	2,985,000
Total U.S. government obligations		<u>3,475,000</u>

(continued)

	<i>Principal Amount or Shares</i>	<i>Fair Value</i>
<i>Short-term notes—6%</i>		
Commercial Paper, Inc., 5.5% due 2/5/X5	505,000	506,000
U.S. Treasury bills, 5.2% due 1/20/X5***	725,000	719,000
Total short-term notes		<u>1,225,000</u>
<i>Repurchase agreements—2%</i>		
Money Center Bank of Large City, 4% dated 12/29/X4, due 1/3/X5, repurchase price \$500,274, collateralized by U.S. Treasury bonds	500,000	500,000
Total—100% (cost \$19,292,000)		<u><u>\$21,721,000</u></u>

Note—Aggregate value of segregated securities—\$372,000.

* Portion of the security is pledged as collateral for call options written.

** Non-income producing security.

*** Portion of the security is purchased with the cash proceeds from securities loans. (The investment company should also footnote any restrictions associated with the investment because of the collateral arrangements.)

The accompanying notes are an integral part of these financial statements.

.05

XYZ Management Investment Company

Call Options Written

December 31, 20X4

<u>Common Stocks/Expiration Date/Exercise Price</u>	<u>Shares Subject to Call</u>	<u>Fair Value</u>
Allied Manufacturing Corporation/July/25	10,000	\$ 50,000
Allied Manufacturing Corporation/October/30	5,000	2,500
Consumer Goods Company September/45	7,000	177,500
Total (premiums received \$110,000) (Note 3)		<u>\$230,000</u>

The accompanying notes are an integral part of these financial statements.

.06

XYZ Management Investment Company
Securities Sold Short
December 31, 20X4

<u>Common Stocks</u>	<u>Shares</u>	<u>Fair Value</u>
International Widgets, Inc.	40,000	\$ 425,000
Paper Airplane Corporation	25,000	265,000
Amber Company	100,000	983,000
Total (proceeds \$1,555,000)		<u>\$1,673,000</u>

The accompanying notes are an integral part of these financial statements.

.07

XYZ Management Investment Company

Statement of Net Assets

December 31, 20X4

Note: Securities may be arranged by industry or other groupings (showing percentage of total portfolio or of net assets invested in each grouping) that the Company believes will be most meaningful to users.

	<i>Shares or Principal Amount</i>	<i>Fair Value</i>
Assets		
Investment in securities—113% of net assets		
<i>Common stocks—33%</i>		
Consumer durable goods—6%		
Allied Manufacturing Corporation*	25,000	\$ 620,000
Baker Industries, Inc.*	15,000	150,000
Consumer Goods Company*	8,000	300,000
Other	600	16,000
		<u>1,086,000</u>
Consumer nondurable goods—18%		
Amalgamated Buggy Whips, Inc. (Note 2)	10,000	3,280,000
American Company	4,000	100,000
Other	2,000	55,000
		<u>3,435,000</u>
Service industries—4%		
Service Company, Inc.	10,000	465,000
Cannon Sales	13,000	400,000
Other	200	4,000
		<u>869,000</u>
Other industry groupings—5%		<u>921,000</u>
[Additional industry groupings and details of the fifty largest holdings are not included in this illustration.]		
Total common stocks		<u>6,311,000</u>
<i>Convertible bonds—28%</i>		
American Retailing Inc.—5.5% debenture due 20XX	\$ 500,000	525,000
Paper Airplane Corporation—6.25% debenture due 20XX	4,500,000	4,875,000
Total convertible bonds		<u>5,400,000</u>
<i>Indexed securities—11%</i>		
American Trust Co. (principal linked to deutsche mark yield curve)—10% due 20XX	2,000,000	2,100,000
<i>Mortgage-backed securities—14%</i>		
FNMA, 8% due 20XX	\$2,000,000	\$ 1,950,000
FNMA strip, principal only, zero coupon, due 20XX	1,000,000	760,000
Total mortgage-backed securities		<u>2,710,000</u>
<i>U.S. government obligations—18%</i>		
U.S. Treasury 6% notes due 20XX	500,000	490,000
U.S. Treasury 8% notes due 20XX	3,000,000	2,985,000
Total U.S. government obligations		<u>3,475,000</u>
<i>Short-term notes—6%</i>		
Commercial Paper, Inc., 5.5% due 2/5/X5	505,000	506,000
U.S. Treasury bills, 5.2% due 1/20/X5***	725,000	719,000
Total short-term notes		<u>1,225,000</u>

(continued)

	<i>Shares or Principal Amount</i>	<i>Fair Value</i>
<i>Repurchase agreements—3%</i>		
Money Center Bank of Large City, 4%, dated 12/29/X4 due 1/3/X5, repurchase price \$500,274, collateralized by U.S. Treasury bonds	500,000	500,000
Total investments in securities (cost \$19,292,000)—including \$570,000 of securities loaned (Note 8) ²		21,721,000
Cash denominated in foreign currencies (cost \$141,000)		139,000
Cash		60,000
Deposits with brokers for securities sold short		1,555,000
Receivables		
Dividends and interest		46,000
Investment securities sold		24,000
Capital stock sold		54,000
Unrealized gain on foreign currency exchange contract (Note 8)		419,000
Other assets		26,000
Total assets		<u>24,044,000</u>
Liabilities		
Call options written, at fair value (premiums received \$110,000)		230,000
Securities sold short, at fair value (proceeds \$1,555,000)		1,673,000
Demand loan payable to bank (Note 5)		2,000,000
Payable upon return of securities loaned (Note 8)		620,000
Unrealized loss on foreign currency exchange contract (Note 8)		108,000
Due to broker—variation margin		10,000
<i>Payables</i>		
Investment securities purchased		\$ 52,000
Capital stock reacquired		8,000
Other		4,000
Accrued expenses		8,000
Distribution payable		158,000
Total liabilities		<u>4,871,000</u>
Net assets		<u>\$19,173,000</u>
Analysis of Net Assets:		
Net capital paid in on shares of capital stock		\$15,184,000
Distributable earnings		3,989,000
Net assets (equivalent to \$4.55 per share based on 4,216,000 shares of capital stock outstanding) (Note 6)		<u>\$19,173,000</u>
Note—Aggregate value of segregated securities—\$372,000.		

* Portion of the security is pledged for call options written.

** Non-income producing security.

*** Portion of the security is purchased with the cash proceeds from securities loans. (The investment company should also footnote any restrictions associated with the investment because of the collateral arrangements.)

² Investments in securities include securities purchased with cash proceeds from securities loans.

When cash is received as collateral in secured borrowings, the cash received should be recognized as the investment company's asset along with the obligation to return the cash. If the investment company makes investments with the cash, even if made by agents or in pools with other securities lenders, the investment company should reflect the investments as part of its holdings in the schedule of investments and should footnote any restrictions associated with the investment because of the collateral arrangements.

With regard to collateral received in the form of securities in secured borrowings, if the securities received may be sold or repledged, the investment company should account for those securities in the same way as it would account for cash received. That is, the investment company should record the securities received as the investment company's asset along with the obligation to return the securities. However, if the investment company does not have the right to sell or repledge the securities received as collateral, then the investment company should not record the securities or the related liability on its books.

The accompanying notes are an integral part of these financial statements.

.08

XYZ Management Investment Company

Statement of Operations

Year Ended December 31, 20X4

Investment income

Dividends (net of foreign withholding taxes of \$20,000)	\$ 742,000	
Interest	209,000	
Income from securities loaned—net	<u>50,000</u>	
Total income		\$ 1,001,000

Expenses

Investment advisory fee	135,000	
Interest	55,000	
Professional fees (Note 9)	29,000	
Custodian and transfer agent fees	16,000	
Distribution expenses (Note 9)	4,000	
State and local taxes other than income taxes	15,000	
Directors' fees	12,000	
Dividends on securities sold short	<u>9,000</u>	
Total expenses		275,000
Fees paid indirectly (Note 9)		(4,000)
Fees waived (Note 9)		<u>(45,000)</u>
Net expenses		226,000
Net investment income		<u>775,000</u>

Realized and unrealized gain (loss) from investments and foreign currency:

Net realized gain (loss) from—		
Investments		1,089,000
Foreign currency transactions*		<u>(44,000)</u>
		1,045,000
Net increase (decrease) in unrealized appreciation (depreciation) on—		
Investments		(1,647,000)
Translation of assets and liabilities in foreign currencies*		<u>353,000</u>
		<u>(1,294,000)</u>
Net realized and unrealized loss from investments and foreign currency		<u>(249,000)</u>
Net increase in net assets resulting from operations		<u>\$ 526,000</u>

* If separate reporting is adopted, these captions would also include foreign currency effects of realized and unrealized gains and losses on investments. If separate reporting is not adopted, such foreign currency effects would be included in the investments captions.

The accompanying notes are an integral part of these financial statements.

.09

XYZ Management Investment Company
Statements of Changes in Net Assets
Years Ended December 31, 20X4 and 20X3

	<u>20X4</u>	<u>20X3</u>
Increase (decrease) in net assets from operations		
Investment income—net	\$ 775,000	\$ 492,000
Net realized gain from investments and foreign currency*	1,045,000	1,000,000
Unrealized appreciation (depreciation) on investments and translation of assets and liabilities in foreign currencies**	<u>(1,294,000)</u>	<u>1,551,000</u>
Net increase in net assets resulting from operations	526,000	3,043,000
Distributions to shareholders	(1,875,000)	(1,350,000)
Tax return of capital to shareholders	—	(66,000)
Capital share transactions (Note 6)	<u>2,730,000</u>	<u>1,755,000</u>
Total increase	1,381,000	3,382,000
Net assets		
Beginning of year	<u>17,792,000</u>	<u>14,410,000</u>
End of year	<u><u>\$19,173,000</u></u>	<u><u>\$17,792,000</u></u>

* It is also acceptable to present each of these items as a separate line item: net realized gains from investments; net realized gains (losses) from foreign currency transactions.

** It is also acceptable to present each of these items as a separate line item: unrealized appreciation of investments; unrealized appreciation on translation of assets and liabilities in foreign currencies.

The accompanying notes are an integral part of these financial statements.

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XYZ Management Investment Company

Statement of Cash Flows

Year Ended December 31, 20X4

*Increase (decrease) in cash—**Cash flows from operating activities:*

Net increase in net assets from operations	\$ 526,000
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:	
Purchase of investment securities	(26,720,000)
Proceeds from disposition of investment securities	26,030,000
Sale of short-term investment securities, net	(921,000)
Increase in deposits with brokers for short sales	(555,000)
Increase in collateral for securities loaned	(270,000)
Increase in dividends and interest receivable	(18,000)
Decrease in receivables for securities sold	306,000
Increase in equity on foreign currency contracts	(363,000)
Increase in other assets	(2,000)
Increase in call options written	50,000
Increase in securities sold short	823,000
Increase in payable upon return of securities loaned	270,000
Decrease in variation margin payable	(4,000)
Decrease in payable for securities purchased	(77,000)
Increase in accrued expenses	1,000
Unrealized appreciation on securities and currencies	1,647,000
Net realized gain from investments and currencies	(1,089,000)
Net cash used in operating activities	<u>(366,000)</u>

Cash flows from financing activities:

Decrease in loan payable	(400,000)
Proceeds from shares sold	2,143,000
Payment on shares redeemed	(450,000)
Cash distributions paid	<u>(841,000)</u>
Net cash provided by financing activities	<u>452,000</u>
Net increase in cash	86,000

Cash:

Beginning balance	<u>113,000</u>
Ending balance	<u><u>\$ 199,000</u></u>

Supplemental disclosure of cash flow information:

Noncash financing activities not included herein consist of reinvestment of dividends and distributions of \$1,000,000.

The accompanying notes are an integral part of these financial statements.

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XYZ Management Investment Company
Notes to Financial Statements

1. Significant Accounting Policies

XYZ Management Company (the Company) is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The investment objective of the Company is to seek a high total return consisting of both current income and realized and unrealized gains from equity and debt securities.

Security valuation. Investments in securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short positions and call options written, for which the last quoted asked price is used. Short-term notes are stated at amortized cost, which approximates fair value. Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined by the board of directors. The ability of issuers of debt securities held by the Company to meet their obligations may be affected by economic and political developments in a specific country or region.

Repurchase agreements. In connection with transactions in repurchase agreements, it is the Company's policy that its custodian take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction, including accrued interest, at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the Company may be delayed or limited.

Foreign currency. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal period end, resulting from changes in exchange rates.

[The following paragraphs illustrate disclosures for a fund that chooses to report the foreign currency elements of realized and unrealized gains and losses on investments.]

The Company isolates that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held.

Reported net realized foreign exchange gains or losses arise from sales of portfolio securities, sales and maturities of short-term securities, sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the

Company's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, including investments in securities at fiscal period end, resulting from changes in the exchange rate.

Option writing. When the Company writes an option, an amount equal to the premium received by the Company is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Company on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Company has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Company. The Company as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

Security loans. The Company receives compensation in the form of fees, or it retains a portion of interest on the investment of any cash received as collateral. The Company also continues to receive interest or dividends on the securities loaned. The loans are secured by collateral at least equal, at all times, to the fair value of the securities loaned plus accrued interest. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Company. The Company has the right under the lending agreement to recover the securities from the borrower on demand.

Financial futures contracts. The Company invests in financial futures contracts solely for the purpose of hedging its existing portfolio securities, or securities that the Company intends to purchase, against fluctuations in fair value caused by changes in prevailing market interest rates. Upon entering into a financial futures contract, the Company is required to pledge to the broker an amount of cash, U.S. government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). Subsequent payments, known as "variation margin," are made or received by the Company each day, depending on the daily fluctuations in the fair value of the underlying security. The Company recognizes a gain or loss equal to the daily variation margin. Should market conditions move unexpectedly, the Company may not achieve the anticipated benefits of the financial futures contracts and may realize a loss. The use of futures transactions involves the risk of imperfect correlation in movements in the price of futures contracts, interest rates, and the underlying hedged assets.

Short sales. The Company may sell a security it does not own in anticipation of a decline in the fair value of that security. When the Company sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited in size, will be recognized upon the termination of a short sale.

Foreign currency contracts. The Company may enter into forward foreign currency exchange contracts primarily to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities. When entering into a forward currency contract, the Company agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily, and the Company's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statement of assets and liabilities. Realized and unrealized gains and losses are included in the statement of operations. These instruments involve market risk, credit risk, or both kinds of risks, in excess of the amount recognized in the statement of assets

and liabilities. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

Federal income taxes. The Company's policy is to continue to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its shareholders. Therefore, no federal income tax provision is required.

Distributions to shareholders. Distributions to shareholders, which are determined in accordance with income tax regulations, are recorded on the ex-dividend date.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Other. The Company records security transactions based on a trade date. Dividend income is recognized on the ex-dividend date, and interest income is recognized on an accrual basis. Discounts and premiums on securities purchased are amortized, over the lives of the respective securities. Withholding taxes on foreign dividends have been provided for in accordance with the Company's understanding of the applicable country's tax rules and rates.

2. Restricted Securities

The investment in 10,000 shares of Amalgamated Buggy Whips, Inc. common stock, the sale of which is restricted, has been valued by the board of directors at \$328 per share after considering certain pertinent factors, including the results of operations of Amalgamated since the date of purchase on March 15, 20X1, for \$1,580,000 and the sales price of recent private placements in its common stock. No quoted market price exists for Amalgamated shares.* It is possible that the estimated value may differ significantly from the amount that might ultimately be realized in the near term, and the difference could be material.

3. Call Options Written**

As of December 31, 20X4, portfolio securities valued at \$372,000 were held in escrow by the custodian as cover for call options written by the Company.

Transactions in options written during the year ended December 31, 20X4, were as follows:

	<i>Number of Contracts</i>	<i>Premiums Received</i>
Options outstanding at December 31, 20X3	100	\$100,000
Options written	500	500,000
Options terminated in closing purchase transactions	(150)	(190,000)
Options expired	(80)	(150,000)
Options exercised	(150)	(150,000)
Options outstanding at December 31, 20X4	<u>220</u>	<u>\$110,000</u>

* If several **restricted security** investments are held, a general statement on the valuation methods may be given rather than individual description, as well as the aggregate value of such securities.

** Practitioners should consider all of the disclosure requirements of FASB Statement No. 133 which may not be necessarily reflected in these financial statements and notes to the financial statements.

4. Distributions to Shareholders

On January 3, 20X5, a distribution of \$0.20 per share was declared. The dividend was paid on January 20, 20X5, to shareholders of record on January 10, 20X5.

The tax character of distributions paid during 20X4 and 20X3 was as follows:

	20X4	20X3
<i>Distributions paid from:</i>		
Ordinary income	\$ 755,000	\$ 550,000
Long-term capital gain	1,120,000	800,000
	<u>1,875,000</u>	<u>1,350,000</u>
Return of capital	—	66,000
	<u>\$1,875,000</u>	<u>\$1,416,000</u>

As of December 31, 20X4, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$1,304,000
Undistributed long-term gain	1,145,000
Unrealized appreciation	<u>1,540,000</u>
	<u>\$3,989,000</u>

The difference between book basis and tax-basis unrealized appreciation is attributable primarily to the tax deferral of losses on wash sales and the realization for tax purposes of unrealized gains on certain forward foreign currency contracts and on investments in passive foreign investment companies.

5. Bank Loans

The Company has an unsecured \$3,000,000 bank line of credit; borrowings under this arrangement bear interest at 110 percent of the bank's prime rate. As of December 31, 20X4, the Company was paying interest at 8 percent per year on its outstanding borrowings. No compensating balances are required.

6. Capital Share Transactions

As of December 31, 20X4, 25,000,000 shares of \$0.50 par value capital stock were authorized.

Transactions in capital stock were as follows:

	<i>Shares</i>		<i>Amount</i>	
	20X4	20X3	20X4	20X3
Shares sold	452,000	329,000	\$2,186,000	\$1,440,000
Shares issued in reinvestment of distributions	<u>222,000</u>	<u>207,000</u>	<u>1,000,000</u>	<u>845,000</u>
	674,000	536,000	3,186,000	2,285,000
Shares redeemed	<u>104,000</u>	<u>121,000</u>	<u>456,000</u>	<u>530,000</u>
Net increase	<u>570,000</u>	<u>415,000</u>	<u>\$2,730,000</u>	<u>\$1,755,000</u>

7. Investment Transactions

Purchases and sales of investment securities (excluding short-term securities and U.S. government obligations) were \$23,420,000 and \$24,030,000, respectively.

The U.S. federal income tax basis of the Company's investments at December 31, 20X4, was \$19,321,000, and net unrealized appreciation for U.S. federal income tax purposes was \$1,780,000 (gross unrealized appreciation \$2,380,000; gross unrealized depreciation \$600,000).

8. Portfolio Securities Loaned, Financial Futures Contracts, and Forward Currency Contracts*

As of December 31, 20X4, the Company loaned common stocks having a fair value of approximately \$570,000 and received \$620,000 of cash collateral for the loan. This cash was invested in U.S. Treasury bills with maturities ranging from January to April 20X5.

As of December 31, 20X4, the Company sold ten financial futures contracts on ten-year U.S. Treasury notes for delivery in March 20X5. The company has recorded a realized loss of \$50,000 as of December 31, 20X4.

At December 31, 20X4, the Company sold the following foreign currency exchange contracts:

	<i>Unrealized Gain</i>	<i>Unrealized Loss</i>
1,407,900,000 Japanese yen vs. \$14,588,000 for settlement January 25, 20X5	\$ 419,000	
14,394,000 Euro vs. \$13,206,000 for settlement March 7, 20X5	—	\$(108,000)
	<u>\$419,000</u>	<u>\$(108,000)</u>

9. Investment Advisory Fees and Other Transactions With Affiliates

The Company receives investment management and advisory services under a management agreement (Agreement) that provides for fees to be paid at an annual rate of 0.65 percent of the Company's average daily net assets. Certain officers and directors of the Company are also officers and directors of the investment adviser. The Agreement provides for an expense reimbursement from the investment adviser if the Company's total expenses, exclusive of taxes, interest on borrowings, dividends on securities sold short, brokerage commissions, and extraordinary expenses, exceed 1.5 percent of the Company's average daily net assets for any full fiscal year. During the year ended December 31, 20X4, the investment adviser voluntarily waived \$45,000 of its fee.

The investment adviser also received \$5,000 in 20X4 from brokerage fees on executions of purchases and sales of the Company's portfolio investments.

During 20X4, the Company incurred legal fees of \$7,000 to Brown and Smith, counsel for the Company. A partner of the firm is a director of the Company.

MNO Service Company (MNO), an affiliate of the investment adviser, is the distributor of the Company's shares, and received \$10,000 in 20X4 from commissions earned on sales of the Company's capital stock. The Company has entered into a distribution agreement and plan of distribution pursuant to which the Company pays MNO a fee, accrued daily and payable monthly, at an annual rate of 0.75 percent of average daily net assets of the Company. During the year ended December 31, 20X4, MNO received contingent deferred sales charges of \$18,000 from redeeming shareholders. Also, the amount of distribution expenses incurred by MNO and not yet reimbursed was approximately \$187,000. This amount may be recovered from future payments under the plan or contingent deferred sales charges.

Included in the statement of operations under the caption "custodian and transfer agent fees" are expense offsets of \$4,000 arising from credits on cash balances maintained on deposit.

* Practitioners should consider all of the disclosure requirements of FASB Statement No. 133 which may not be necessarily reflected in these financial statements and notes to the financial statements.

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	Financial Highlights				
	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>	<u>20X1</u>	<u>20X0*</u>
Per Share Operating Performance (For a share of capital stock outstanding throughout the period):					
Net asset value, beginning of period	\$ 4.88	\$ 4.46	\$ 4.16	\$ 4.81	\$ 4.53
<i>Income from investment operations:</i>					
Net investment income	0.21	0.15	0.19	0.17	0.15
Net realized and unrealized gain (loss) on investment transactions	(0.04)	0.76	0.52	(0.42)	0.48
Total from investment operations	0.17	0.91	0.71	(0.25)	0.63
Less distributions	(0.50)	(0.47)	(0.41)	(0.40)	(0.35)
Tax return of capital distribution	—	(0.02)	—	—	—
Total distributions	(0.50)	(0.49)	(0.41)	(0.40)	(0.35)
Net asset value, end of period	\$ 4.55	\$ 4.88	\$ 4.46	\$ 4.16	\$ 4.81
Total Return:**	3.48%	20.40%	17.07%	(5.02)%	3.91%
Supplemental Data:					
Net assets, end of period (000)	\$19,173	\$17,792	\$14,410	\$15,000	\$14,000
<i>Ratio to average net assets:</i>					
Expenses***	1.33% [†]	1.31%	.99%	.82%	.84% [†]
Net investment income***	4.56% [†]	2.82%	4.22%	5.42%	5.10% [†]
Portfolio turnover rate	92%	80%	108%	75%	62%

* Period from March 1, 20X0 (inception) to December 31, 20X0.

** Not annualized for periods less than a year.

*** Annualized for periods less than one year.

[†] Such percentages are after advisory fee waivers and expense subsidies. The adviser voluntarily waived a portion of its investment advisory fee (equal to 0.22% of average net assets) in 20X4 and subsidized certain operating expenses (equal to 0.21% of average net assets) in 20X0.

The accompanying notes are an integral part of these financial statements.

Comment Letter

We welcome any comments and suggestions you have regarding this Checklist. Please send this completed form to: AICPA Accounting and Auditing Publications Team, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3881. Thank you.

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